

Division of Securities  
Utah Department of Commerce  
160 East 300 South  
P. O. Box 146760  
Salt Lake City, UT 84114-6760  
Telephone: (801) 530-6600  
FAX: (801) 530-6980

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**BEFORE THE DIVISION OF SECURITIES  
OF THE DEPARTMENT OF COMMERCE  
OF THE STATE OF UTAH**

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**IN THE MATTER OF:**

**BLACKSMITH MANAGEMENT GROUP,  
INC., and  
BENNIE SMITH JR.,**

**Respondents.**

**ORDER TO SHOW CAUSE**

**Docket No. SD-06-0055**

**Docket No. SD-06-0056**

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It appears to the Director of the Utah Division of Securities (Director) that Blacksmith Management Group, Inc. and Bennie Smith Jr. (Respondents) may have engaged in acts and practices that violate the Utah Uniform Securities Act, Utah Code Ann. § 61-1-1, et seq. (the Act). Those acts are more fully described herein. Based upon information discovered in the course of the investigation of this matter by the Utah Division of Securities (Division), the Director issues this Order to Show Cause in accordance with the provisions of § 61-1-20(1) of the Act.

### **STATEMENT OF JURISDICTION**

1. Jurisdiction over the Respondents and subject matter is appropriate in this matter because the Division alleges that the Respondents violated § 61-1-1 (Securities Fraud) and § 61-1-7 of the Act while engaged in the offer and sale of securities in Utah.

### **STATEMENT OF FACTS**

#### **THE PARTIES**

2. Blacksmith Management Group, Inc. (Blacksmith), was registered as a Utah corporation January 5, 2001, but its corporate status expired on May 6, 2004. Blacksmith's business address was 510 South 600 East, Salt Lake City, Utah, and Bennie Smith Jr. was the president and sole director.
3. Bennie Smith Jr.'s (Smith) last known address is in Maricopa County, Arizona.

#### **GENERAL ALLEGATIONS**

4. From March 2002 to January 2004, Smith solicited two investments in Blacksmith, totaling \$150,000, from a Utah investor (Investor).
5. In 2001, Investor loaned \$166,000 to Smith, and received a promissory note secured by real property in return. Investor was paid all but \$32,000 on this loan and agreed to roll the \$32,000 into a new promissory note with Smith, which she received in October 2002.
6. In March 2002, Smith called investor and told her Blacksmith had acquired a small government contract in Ohio, and the details of the contract were confidential (the Ohio

Project). To begin the Ohio Project, Smith told Investor he needed \$8,000 to purchase a trailer and several computers.

7. Smith told Investor he would provide her with a promissory note bearing 10% annual interest, and that it would be secured by real property located in Las Vegas, Nevada. Smith also told Investor the real property was worth \$2.5 million and was free and clear of any encumbrances.
8. On March 22, 2002, Investor obtained a cashier's check made payable to Smith in the amount of \$8,000. Investor deposited the check directly into Smith's bank account a few days later.
9. In May 2002, Smith telephoned Investor and said he needed more money for the Ohio Project.
10. Investor obtained two cashier's checks, one on May 13, 2002 and one on June 21, 2002, which together totaled \$35,000. Both checks were made payable to Smith, and were deposited by Investor into Smith's bank account within a few days of each checks' issue date.
11. On October 24, 2002, Smith gave Investor a promissory note for \$75,000, and a deed of trust to real property in Las Vegas. The promissory note was between Smith and Investor, and was signed by Smith. Smith gave Investor the \$75,000 promissory note in return for her \$32,000 investment which she rolled over in March 2002, her \$8,000 investment from March 2002, and her \$35,000 investment from May and June 2002.

12. On April 8, 2003, Investor received a letter and notice of default from Old Republic Title Company (Title Company) regarding the real property in Las Vegas. When Investor contacted the Title Company, a representative told her the property had several liens against it and that a foreclosure may affect her secured interest.
13. When Investor confronted Smith with this information, he said there was still sufficient equity in the property to secure her investment, and that he was trying to finalize the sale of the property before the foreclosure date.
14. On July 10, 2003, Investor received a notice from the Title Company that her interest in the Las Vegas property had been foreclosed upon, and she would receive no money from the foreclosure.
15. Investor confronted Smith regarding the foreclosure notice, and Smith told her he was in the process of acquiring a contract for a project that would make millions, and if he was able to secure the contract, he would pay her back.
16. A couple of days after confronting Smith, Smith told Investor that Blacksmith had established a contract in Houston, Texas (the Texas Project) for \$20 million, and that he would pay Investor with the proceeds. Smith told Investor the Texas Project was a secret government contract and he could not disclose the details.
17. Between February and September 2003, investor received four interest payments from Smith totaling \$4,100.

18. In January 2004, Smith telephoned Investor and told her Blacksmith had acquired a contract in Florida to manufacture 50,000 doors (the Door Project). Soon thereafter, Smith showed Investor the business plan for the Door Project.
19. On January 15, 2004, Smith telephoned Investor and told her he needed \$75,000 to purchase equipment for the Door Project. Smith told Investor he would give her a promissory note bearing 10% annual interest and secure the note with the purchased equipment. Later that same day, Smith emailed Investor a list of the equipment to be purchased.
20. Investor told Smith she would invest in Blacksmith, but that she would have to use the equity in her home.
21. On January 20, 2004, using the equity in her home, Investor obtained a cashier's check for \$75,000 made payable to Blacksmith, and gave it to Blacksmith's receptionist. That same day, Blacksmith's receptionist gave Investor a promissory note which included interest of 10% per year and a maturity date of January 20, 2007. The promissory note was between Smith and Investor, and was signed by Smith.
22. Investor noticed that the maturity date on the note was incorrect. Investor immediately telephoned Smith and told him the note was supposed to mature in 6 months to a year. Smith told Investor he had not seen the note, and would give Investor a new note with the correct maturity date.

23. Investor received two interest payments, one on February 3, 2004 and one on March 22, 2004, totaling \$4,900. The first payment check was from Blacksmith and was signed by the receptionist, and the second was a personal check from Smith.
24. On March 23, 2004, Investor tried to contact Smith on his cell phone to inquire about the corrected promissory note, but his mobile phone service had been terminated. Investor sent several emails to Smith requesting the corrected note, but Smith failed to respond.
25. In June 2004, Investor was told by an employee of Blacksmith that the purchased equipment was being held by Blacksmith's landlord because Smith had not paid the rent. The same employee told Investor the equipment was owned by another employee of Blacksmith, not Smith.
26. On August 5, 2004, Investor filed a law suit in Third Judicial District Court against Smith to recover her investments. On September 23, 2004, Investor obtained one judgment against Smith for \$163,688. On December 1, 2004, Investor obtained a second judgment against Smith and Blacksmith for \$150,000 and \$75,000 in punitive damages, respectively. Investor's judgments against Smith and Blacksmith are both outstanding.

### **CAUSES OF ACTION**

#### **COUNT I**

#### **Securities Fraud under § 61-1-1 of the Act (Blacksmith & Smith)**

27. The Division incorporates and re-alleges paragraphs 1 through 26.

28. The investment opportunities and promissory notes offered and sold by Smith and Blacksmith are securities under § 61-1-13 of the Act.
29. In connection with the offer and sale of a security to Investor, Smith and Blacksmith, directly and indirectly, made false statements, including, but not limited to, the following:
- a. That Smith and Blacksmith had obtained a contract for Texas Project and the Door Project, when, in fact, this was not true;
  - b. That the real property in Las Vegas that would secure Investor's investment was free and clear of all encumbrances and was worth \$2.5 million, when, in fact, there were three liens against the real property that totaled \$1,260,000;
  - c. That Investor's money would be used to purchase a trailer and computers for the Ohio Project, when, in fact, Smith used some of Investor's money to pay personal expenses such as medical bills and loan payments to First USA Bank on established loans. Smith also converted some of Investor's money into cash; and
  - d. That Investor's investment would be secured by the equipment purchased with her money, when, in fact, Smith had no reasonable basis on which to make this representation. Smith did not secure Investor's investment with any type of collateral.
30. In connection with the offer and sale of a security to Investor, Smith and Blacksmith, directly and indirectly, failed to disclose material information, including, but not limited to, the following:

- a. That Smith had over \$1.5 million in outstanding civil judgments against him;
- b. That the real property in Las Vegas was encumbered by three liens totaling \$1,260,000;
- c. That Smith would use Investor's money for personal expenses;
- d. That with the possible exception of the Ohio Project, Blacksmith had acquired no contracts for work;
- e. Some or all of the information typically provided in an offering circular or prospectus regarding Blacksmith, such as:
  - i. The business and operating history for Blacksmith;
  - ii. Identities of Blacksmith's principals along with their experience in this type of business;
  - iii. Blacksmith's financial statements;
  - iv. The market for the product of the company;
  - v. The nature of the competition for the product;
  - vi. Current capitalization of the issuer;
  - vii. A description of how the investment would be used by the business;
  - viii. The track record of the company to investors;
  - ix. Risk factors for investors;
  - x. The number of other investors;
  - xi. The minimum capitalization needed to participate in the investment;



- xii. The disposition of any investments received if the minimum capitalization were not achieved;
- xiii. The liquidity of the investment;
- xiv. Discussion of pertinent suitability factors for the investment;
- xv. The proposed use of the investment proceeds;
- xvi. Any conflicts of interest the issuer, the principals, or the agent may have with regard to the investment;
- xvii. Agent commissions or compensation for selling the investment;
- xviii. Whether the investment is a registered security or exempt from registration; and
- xix. Whether the person selling the investment was licensed.

31. Based on the above, Smith and Blacksmith willfully violated § 61-1-1 of the Act.

**COUNT II**  
**Sale of Unregistered Securities under § 61-1-7 of the Act**  
**(Blacksmith & Smith)**

- 32. The Division incorporates and re-alleges paragraphs 1 through 31.
- 33. The promissory notes offered and sold by Smith and Blacksmith are securities under § 61-1-13 of the Act.
- 34. The promissory notes were offered and sold in this state.

35. The promissory notes offered and sold by Smith and Blacksmith were not registered under the Act, and Respondents did not file any claim of exemption relating to the investment opportunity.
36. Based on the above information, Smith and Blacksmith willfully violated § 61-1-7 of the Act.

### **ORDER**

The Director, pursuant to § 61-1-20 of the Act, hereby orders Respondents to appear at a formal hearing to be conducted in accordance with Utah Code Ann. §§ 63-46b-4 and 63-46b-6 through -10, and held before the Utah Division of Securities. The hearing will occur on Friday, September 8, 2006, at 9:00 a.m., at the office of the Utah Division of Securities, located in the Heber Wells Building, 160 East 300 South, 2<sup>nd</sup> Floor, Salt Lake City, Utah. If Respondents fail to file an answer or appear at the hearing, the Division of Securities may hold Respondents in default, and a fine may be imposed in accordance with Utah Code Ann. § 63-46b-11. In lieu of default, the Division may decide to proceed with the hearing under § 63-46b-10. At the hearing, Respondents may show cause, if any they have:

- a. Why Blacksmith Management Group, Inc. and Bennie Smith Jr. should not be found to have engaged in the violations alleged by the Division in this Order to Show Cause;

- b. Why Blacksmith Management Group, Inc. and Bennie Smith Jr. should not be ordered to cease and desist from engaging in any further conduct in violation of Utah Code Ann. § 61-1-1, or any other section of the Act;
- c. Why Blacksmith Management Group, Inc. should not be ordered to pay a fine of one hundred thousand dollars (\$100,000) to the Division; and
- d. Why Bennie Smith Jr. should not be ordered to pay a fine of one hundred seventy five thousand dollars (\$175,000) to the Division.

DATED this 4<sup>th</sup> day of August, 2006.

*Wayne Klein*

WAYNE KLEIN

Director, Utah Division of Securities



Approved:

*Jeffrey Buckner*

JEFFREY BUCKNER

Assistant Attorney General

J. H.

Division of Securities  
Utah Department of Commerce  
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**BEFORE THE DIVISION OF SECURITIES  
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OF THE STATE OF UTAH**

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**IN THE MATTER OF:**

**BLACKSMITH MANAGEMENT GROUP,  
INC., and  
BENNIE SMITH JR.,**

**Respondents.**

**NOTICE OF AGENCY ACTION**

**Docket No. SD-06-0055**

**Docket No. SD-06-0056**

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**THE DIVISION OF SECURITIES TO THE ABOVE-NAMED RESPONDENTS:**

The purpose of this Notice of Agency Action is to inform you that the Division hereby commences a formal adjudicative proceeding against you as of the date of the mailing of the Order to Show Cause. The authority and procedure by which this proceeding is commenced are provided by Utah Code Ann. §§ 63-46b-3 and 63-46b-6 through 11. The facts on which this action is based are set forth in the foregoing Order to Show Cause.

Within thirty (30) days of the mailing date of this notice, you are required to file an Answer with the Division. The Answer must include the information required by Utah Code § 63-46b-6(1). In addition, you are required by § 63-46b-6(3) to state: a) by paragraph, whether you admit or deny each allegation contained in the Order to Show Cause, including a detailed explanation for any response other than an unqualified admission; b) any additional facts or

documents which you assert are relevant in light of the allegations made; and c) any affirmative defenses (including exemptions or exceptions contained within the Utah Uniform Securities Act) which you assert are applicable. To the extent that factual allegations or allegations of violations contained in the Order to Show Cause are not disputed in your Answer, they will be deemed admitted.

Your Answer should be filed with the Division, attention Pam Radzinski, P.O. Box 146760, Salt Lake City, Utah 84114-6760. A copy of your Answer should also be mailed to the Division's attorney, Jeff Buckner, Assistant Attorney General in the Utah Attorney General's Office, 160 East 300 South, P.O. Box 140872, Salt Lake City Utah 84114-0872, telephone (801) 366-0310.

A hearing date has been set for Friday, September 8, 2006, at 9:00 a.m., at the office of the Utah Division of Securities, located in the Heber Wells Building, 160 East 300 South, 2<sup>nd</sup> Floor, Salt Lake City, Utah.

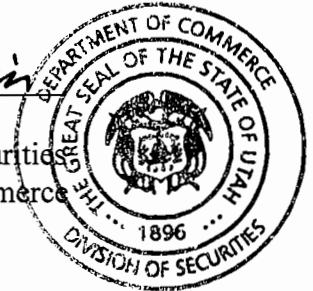
If you fail to file an Answer, as set forth herein, or fail to appear at the hearing, the Division of Securities may hold you in default, and a fine and other sanctions may be imposed against you in accordance with Utah Code Ann. § 63-46b-11, without the necessity of providing you with any further notice. In lieu of default, the Division may decide to proceed with the hearing under § 63-46b-10. At the hearing, you may appear and be heard and present evidence on your behalf. You may be represented by counsel during these proceedings.

The presiding officer in this case is Wayne Klein, Director, Division of Securities, 160 East 300 South, P.O. Box 146760, Salt Lake City, UT 84114-6760, telephone (801) 530-6600.

Questions regarding the Order to Show Cause and Notice of Agency Action should be directed to the Division's attorney, Jeff Buckner, at (801) 366-0310.

DATED this 4<sup>TH</sup> day of August, 2006.

  
WAYNE KLEIN  
Director, Division of Securities  
Utah Department of Commerce



**Certificate of Mailing**

I certify that on the 4TH day of August, 2006, I mailed, by certified mail, a true and correct copy of the Order to Show Cause and Notice of Agency Action to:

Bennie Smith Jr.  
3334 East Jacinto  
Mesa, AZ 85204-7300

Certified Mail # 70051820000202596025

Bennie Smith Jr.  
222 Farragut St. NW 106  
Washington, DC 20011


Certified Mail # 70051820000202596032

Bennie Smith Jr.  
1931 Westchester Dr.  
Silver Spring, MD 20902

Certified Mail # 70060100000176888831

Blacksmith Management Group, Inc.  
510 South 600 East  
Salt Lake City, UT 84102

Certified Mail # 70060100000176888848

  
Executive Secretary